

Columbus, Ohio; General Obligation

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US\$280.42 mil GO various purp taxable Build America bnds unltd tax ser 2010C & ltd tax ser 2010D due 06/01/2031		
Long Term Rating	AAA/Stable	New
US\$129.245 mil GO various purp unltd tax bnds ser 2010A due 06/01/2028		
Long Term Rating	AAA/Stable	New
US\$22.05 mil GO various purp ltd tax & taxable ltd tax bnds ser 2010B&E due 06/01/2026		
Long Term Rating	AAA/Stable	New
Columbus GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

The 'AAA' long-term rating assigned to Columbus, Ohio's unlimited-tax and limited-tax general obligation (GO) various purpose bonds series 2010A-2010E and on the city's previously rated debt reflects Standard & Poor's Ratings Services' opinion of the city's:

- Large, vibrant, and diverse economic base, including a significant public sector component, which provides stability and helps to protect against economic cycles;
- Recent voter support coupled with management's willingness to make timely budgetary adjustments leading to its expectation of rebuilding reserves over the next several years from current reduced levels;
- Moderate overall debt burden; and
- Well-managed capital improvement program (CIP), which continues to address ongoing capital needs.

Although we are concerned by the impact of the ongoing economic downturn on the city's finances, we believe that an 'AAA' rating continues to be justified because of the city's strong financial management, multiple year planning capabilities, and voter support as illustrated by passage of a recent income tax increase.

The city's series 2010A and 2010C unlimited-tax bonds are being issued from voter authorizations received in November 2004 and November 2008. The city's unlimited-tax GO pledge secures these bonds. The city's limited-tax GO pledge secures the series 2010B, 2010D, and 2010E bonds. It is our understanding that the city intends to qualify the series 2010C and series 2010D bonds as Build America bonds, in which the city expects to receive 35% interest subsidy payments from the federal government toward payment of debt service. It is already the city's practice not to levy a property tax for payment of its GO bonds, and we are told that the city would have sufficient funds on hand to cover any late payments of the interest credit from the federal government. The city intends to use a combination of income tax and enterprise fund revenues to pay debt service on the bonds. Bond proceeds will fund an array of different projects, and if market conditions are favorable, portions of the series 2010A and 2010B bonds will also partially refund certain of the city's outstanding voted and unvoted bonds.

The city is the capital of Ohio, located primarily in Franklin County, and enjoys a diversified economy anchored by the government and services sectors. The Ohio State University, one of the nation's largest single-campus universities, with about 54,000 students, and its hospital system, lend further stability. The estimated 2008

population of 754,885 was up 19.3% since 1990. According to the 2000 U.S. Census, Columbus is the nation's 15th-largest city. The city's unemployment rate was 8.3% in 2009, below both the state and national averages of 10.2% and 9.3%, respectively. The city's tax base usually sees the largest amount of growth during revaluation years, but the county auditor did not perform the scheduled revaluation of residential properties in 2009. In 2010, the city's total assessed value equaled \$15.97 billion and reflected the phasing out of taxation on tangible personal property. The real portion (98%) grew at a modest average annual rate of 1.1% between 2007 and 2010. Estimated market value of \$45.6 billion translates to, in our opinion, a strong \$60,426 per capita. We view the city's income levels as adequate at 93% and 86% of the state and national levels, respectively, for 2008 median household effective buying income, but income is most likely somewhat depressed due to the large student population.

The city's financial operations have been affected by the latest recession because much of its revenue is derived from income taxes; however, we are told that management's actions to adjust costs and enhance revenues should result in at least a balanced budget for fiscal 2010 (Dec. 31). Over the past several years, the city's liquidity has weakened as income tax revenue has softened; on a generally accepted accounting principles (GAAP) basis, the total general fund balance decreased by \$10.8 million, \$43.4 million, and \$12.9 million, respectively, in fiscals 2007, 2008, and 2009. At fiscal-year end 2009, the city's general fund balance totaled \$51.6 million, or a good 8.7% of expenditures, in our view. Of that amount, \$37.8 million was unassigned (as defined under Governmental Accounting Standards Board (GASB) 54 as having no explicit intended use), or a good 6.4% of expenditures.

During 2009, the city implemented cost-saving initiatives in part as recommended by a report issued from the Columbus Economic Advisory Committee that was commissioned by the mayor with the backing of city council. The committee found that a structural imbalance existed and recommended a number of cost-saving and revenue-enhancement options, including increasing the income tax to 2.5% from 2.0%. (Since 2005, income tax receipts have comprised between 62% and 66% of general fund revenue.) In August 2009, voters approved the increase effective Oct. 1, 2009; without the additional income tax revenue, management projected drawing down essentially all of its cash reserve. Given the additional income tax received in the fourth quarter of 2009, however, the city was able to maintain \$21.3 million in general fund reserves on a cash or budget basis to close fiscal 2009. Of this amount, officials consider \$15 million as the "rainy day" or economic stabilization fund.

Management estimates that on an annualized basis, the income tax increase will raise approximately \$90 million for the general fund in 2010. In addition, the city expects that at least \$30 million in income tax revenue will be diverted to pay certain debt service costs. Accounting for flat property tax revenue, a reduction in state aid, and flat expenditures from 2009, management projects that the city should close 2010 with a balanced result on a GAAP basis. Management indicates that the additional income tax revenue and cost-saving measures will assist the city in reaching its goal of rebuilding the rainy day fund to at least meet its 5% policy over the next several years.

Columbus' management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA).

Columbus' estimated overall net debt burden (excluding debt paid from self-supporting enterprise funds and including overlapping county and school district debt) is moderate, in our opinion, at \$2,409 per capita and 4% of estimated market value. We also view carrying charges as moderate at 13.4% of total governmental funds expenditures less capital outlay in fiscal 2009.

The city pays for GO debt issued for general governmental purposes primarily from the dedicated 25% allocation of

income tax collections and has not levied a debt service property tax since 1957. Following the issuance of the series 2010 bonds, \$29.3 million remains of the 2004 voted authorization and \$1.19 billion of the 2008 voted authorization. Of the total authorization, approximately \$751 million is intended as enterprise revenue-backed debt (63%). Immediate debt plans of the city include refunding \$37.65 million of short-term GO notes before December 2010. We understand that in 2011, officials plan to add approximately \$335 million in enterprise debt (including Ohio Water Development Authority loans), \$89 million in GO voted debt, and \$36 million in unvoted debt within the 10-millage limitation.

Outlook

The stable outlook reflects our expectation that management will take the necessary steps to maintain the structural balance that management expects to achieve in fiscal 2010 and carry forward into future years, supported by the additional revenue from its voted income tax increase. We expect that improved financial operations will contribute to rebuilding reserves over time. If, however, operating results return to drawing down reserve levels and the city's liquidity is significantly reduced, the rating could be pressured. The city's deep and diverse economic base supports the rating.

Economy: Diversity Aids Stability

The Columbus regional economy is deep and diverse. In 2000, the Columbus metropolitan statistical area (MSA) population was estimated at 1.54 million, with roughly 46% of the population located in the city of Columbus. As the metropolitan area economy continues to diversify, the city has seen a steady increase in its population, estimated at 754,885 in 2008, a 6.1% increase over 2000 levels. As the state capital, the city has a large concentration of state and federal offices, which, along with the presence of The Ohio State University, educating about 54,000 students, helps to stabilize the local economy during national economic downturns. Major leading area employers include the state of Ohio (27,961 employees), JPMorgan Chase & Co. (15,800); the federal government (10,800); OhioHealth (10,400); and The Ohio State University (22,454), which, aside from serving as an employer in higher education, is also a leading employer in the health care sector. The city also serves as the corporate headquarters of Nationwide Insurance (11,373 employees), Limited Brands (5,100), and American Electric Power Co. Inc. (4,332).

The Columbus MSA continues to reduce its dependence on manufacturing, with the sector today making up only 7% of employment compared with 15%-17% in the mid to late 1980s. The regional economy's largest single employment sector is the service industry, which accounts for 45% of jobs. In 2009, the city's unemployment rate of 8.3% was below the state rate of 10.2%, but has increased through the first five months of 2010, averaging 9.3%, illustrating that although the economic makeup of the city helps to insulate it from cyclicalities, the recession has still had an impact on employment in the city.

Two major projects currently underway in the city are likely to continue the city's trend of shedding manufacturing jobs and replacing them with service-related jobs. In both cases, the city expects high-paying health care jobs to add to the employment base. The first project is the construction of a new cancer hospital and critical care center at The Ohio State University. Officials inform us that the \$1 billion project will create 6,000 new jobs by 2015. The second project is an expansion at Nationwide Children's Hospital, already a major area employer with 4,080 jobs. We understand that the expansion, estimated at \$800 million, is expected to create an additional 2,400 jobs.

Financial Management Assessment: 'Strong'

Columbus' management practices are considered "strong" under Standard & Poor's FMA. An FMA of strong indicates that practices are strong, well embedded, and likely sustainable. The city has long used very conservative revenue estimating and quickly adjusts its budget to account for unforeseen events. The city updates its CIP annually and budgets capital spending annually in its capital improvement budget. GO bonds are both voted by the city's constituents and issued as limited-tax bonds within the 10-mill limitation. However, the city pays debt service, as policy, from one-quarter of its 2.5% income tax. Investment management policies are codified by city ordinance. The city maintains a minimum general fund balance.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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